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with Shopping Center Age

The newsmagazine for retail management

October 1988

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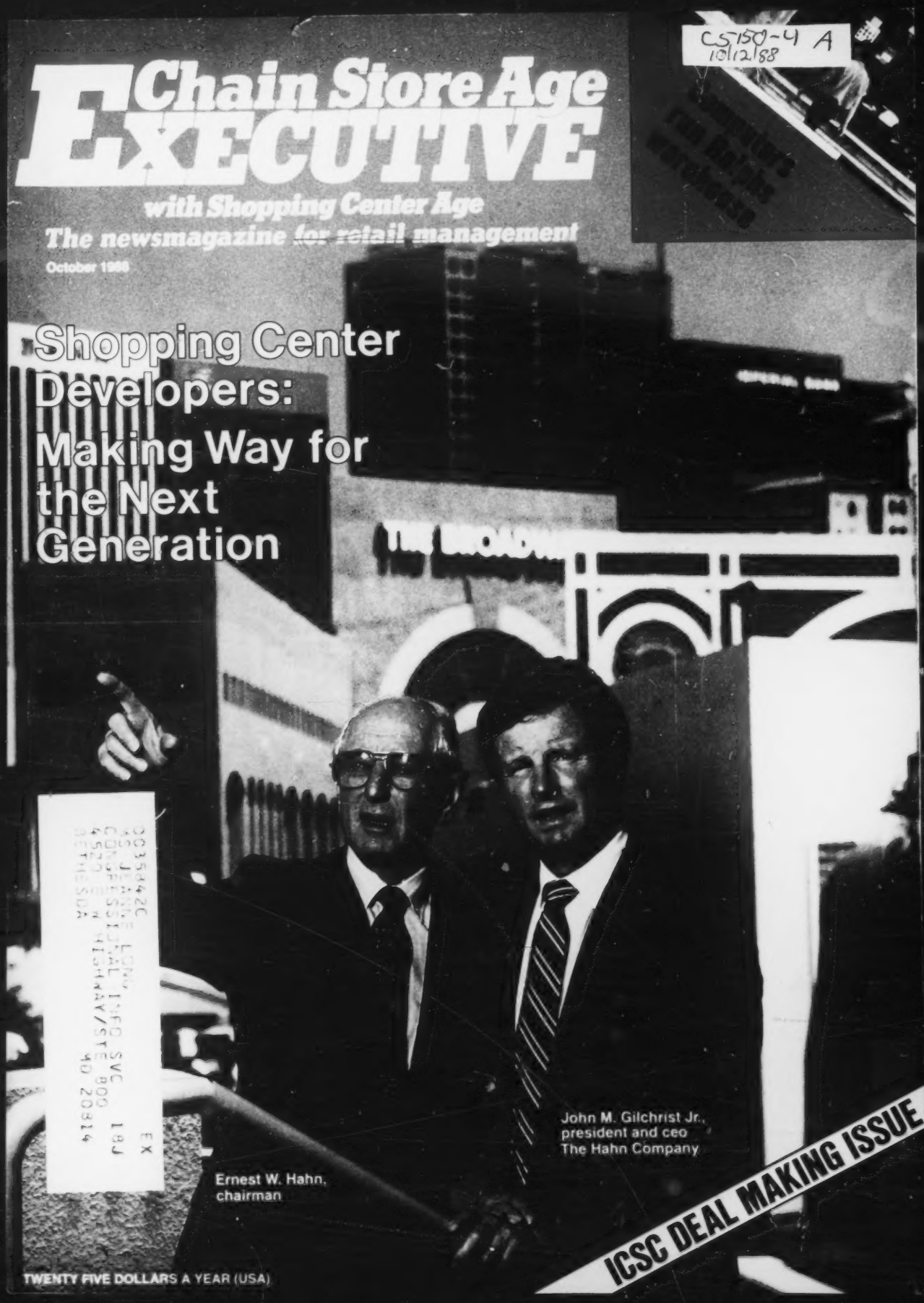

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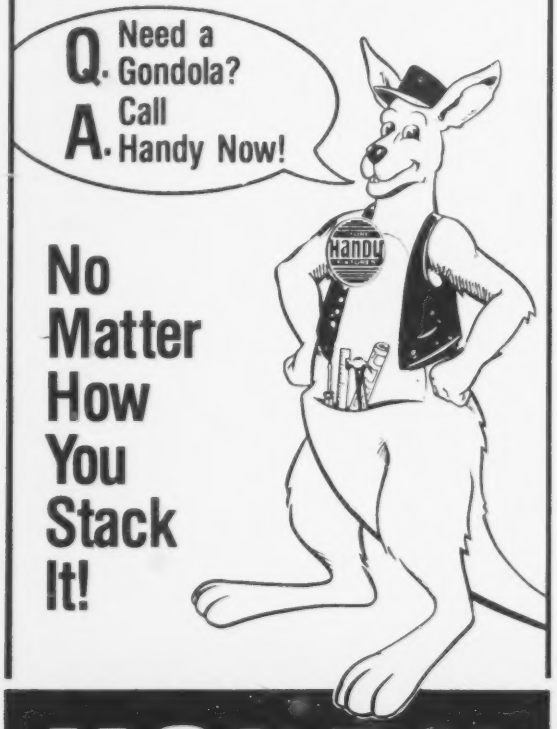

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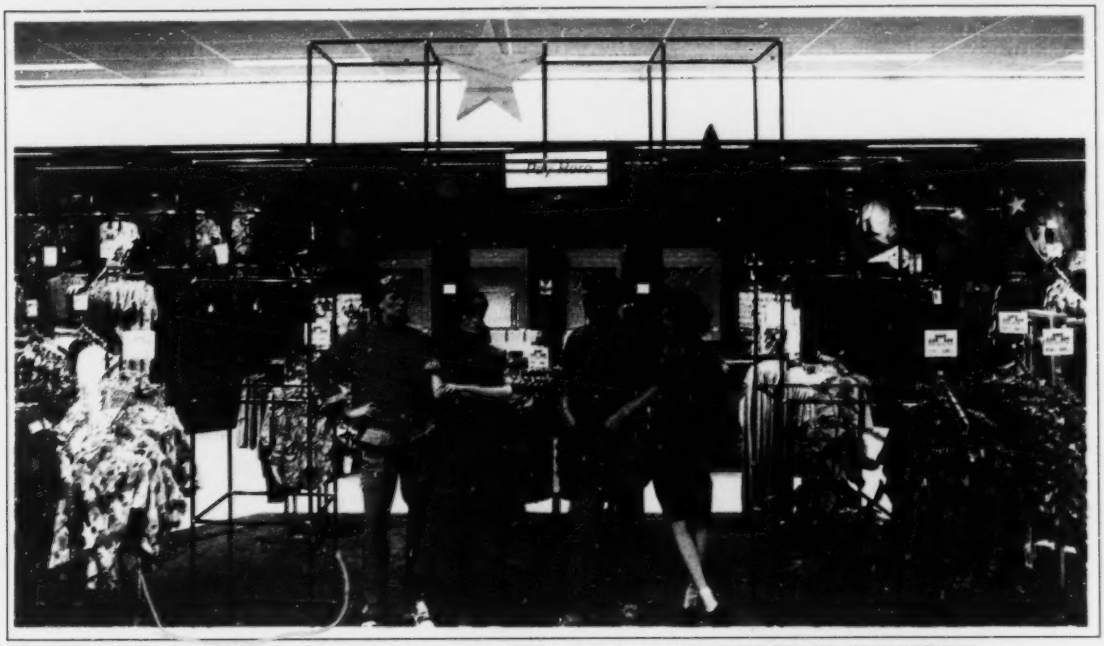


DEPARTMENT STORE SALES: 61% DID NOT REACH EXPECTED LEVELS; 17% WERE FAR BELOW EXPECTATIONS

RETAILER POLL: LABOR CONCERNS RISING

COMPETITION, CUSTOMER SERVICE TOP LIST OF ISSUES IN TOUCHE ROSS SURVEY

What issues do retailers rank as the most important ones facing them now and in the future? That's a question the management consulting and accounting firm of Touche Ross set out to answer by conducting a major retail opinion survey in late May of this year.

It's no surprise that the No. 1 concern expressed by retailers is how to deal with increased competition. More surprising is the second place ranking they give to customer service, closely interrelated with the labor shortage, ranked No. 3.

"This demonstrates that the long-recognized labor problem has become an exacerbated reality," says Cynthia Cohen, a management consulting partner of New York City-based TRADE. (TRADE is a newly-formed group to service the needs of the retail industry. The acronym stands for Touche Ross Retail, Apparel and Distribution Enterprises).

Other major concerns expressed by the retailers participating in this survey, in descending order, include the following: rise of non-store retailing, the falling dollar, mergers and acquisitions and import quotas.

All the results of this survey are being published for the first time in this issue of *Chain Store Age Executive*. The survey was conducted by Touche Ross' Retail Services Group. Most of what is presented here was prepared by members of that group.

Approximately 370 retailers took part in this opinion poll. They represent department stores, specialty soft goods retailers, specialty hard goods operations, mail order houses and off-price stores. The participants come from 35 states and represent retailing businesses with annual sales volumes ranging from $10 million to $1 billion.

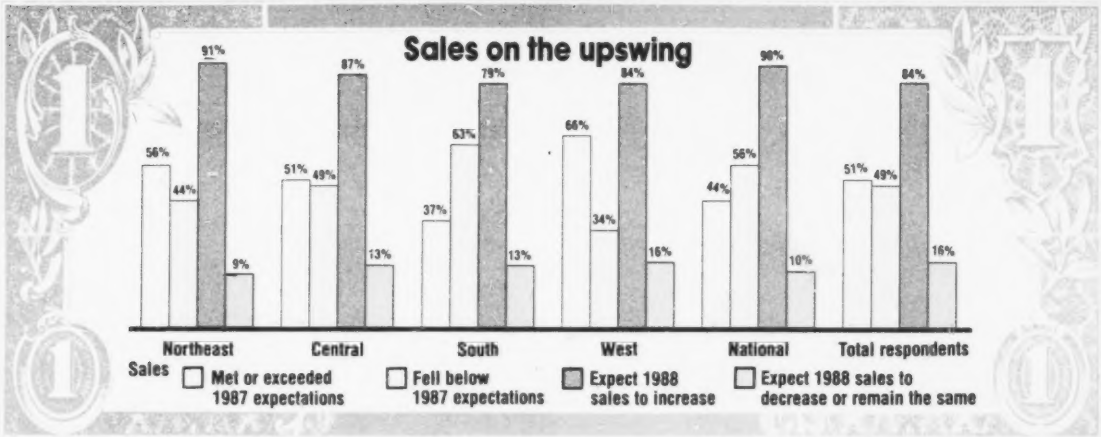
Ninety-six percent of total respondents believe that obtaining experienced, reliable sales personnel today is either a critical problem (say 51%) or somewhat of a problem (45%).

Looking at the situation by regions, retailers with stores in the Northeast are most concerned, with 82% of this group saying they consider hiring experienced or reliable personnel a critical problem. The situation is even more severe in Massachusetts, where the percentage of such retailers is 93%.

Conversely, retailers from the nation's central region are most likely to describe obtaining qualified sales help as "only somewhat" of a problem (according to 62%). However, 37% do describe it as critical.

The regional differences make sense, notes Cohen, because in looking at unemployment statistics, "The respondents from regions where there are labor shortages tend to be those who consider the problem critical."

For example, in the Northeast the unemployment rate is only 3.9%; in Massachusetts it is even lower at



Source: Touche Ross

3.2%. In comparison, the rate in the central region is 6.9%. *(For more detailed information, see accompanying charts.)*

Indeed, by geographic area, in general the more retailers call the issue critical in their region or state, the lower the unemployment rate compared to the U.S. national average at the end of 1987. The fact that the majority of respondents describe the situation as critical is "a reflection of the economic expansion that's been taking place since 1982," says Irwin Cohen, managing partner of TRADE.

Cynthia Cohen adds, "The increase in demand for service-oriented jobs is making hiring tougher for all types of retail operations."

The situation isn't expected to improve noticeably in the future. Eighty-eight percent of the total respondents believe that difficulties in obtaining experienced or reliable sales personnel will affect customer service over the next five years.

Harvey Braun, chairman of the Retail Services Group, points out that the "birth dirth" of the 1960s and 1970s is adding to the problem. "This means that the available work force began to shrink nationwide in 1986—and will continue to shrink for five more years or so."

Retailers traditionally have turned to part-time employees to meet their employment needs. But it's that pool of labor that will be most affected by Braun's "birth dirth." Nationwide, teenagers accounted for nearly one-quarter of part-time retail employees in 1986. However, the number of teens entering the work force is projected to decline drastically between 1986 and 1992.

"Given the shortage of young people entering the work force, the incredible competition retailers must deal with, plus the competition for labor from other sectors of the service industry, retail executives are going to be dealing with terribly complex issues like work incentives and benefits planning while still turning a profit—and while looking for other alternatives," says Braun.

To try to fill in some of this slack, one solution retailers are trying for both part- and full-time sales personnel is the hiring of retirees. Twenty-four percent of the survey respondents say they have a program now in place; another 16% say they have a plan for hiring retired people.

By total annual sales, the larger the company, the more respondents say they have a retiree sales personnel program in place: 41% of retailers from companies with $1 billion or more in sales report such a program now in operation. Just 17% of the responses from companies with annual sales of $10 million to $49 million say they currently have such a program.

Labor is far from the only problem these retailers are having to deal with, however. Not only are they worried about their ability to provide their customers with adequate in-store service, but they are faced with increased pressure from non-store retailing. That's why many of them are getting in on the action.

When respondents from mail-order operations are excluded from the survey sample, 25% of the other respondents say that at least some percentage of their sales result from catalogs. In addition, approximately 70% to 75% of the total respondents are forecasting that sales from their catalogs will increase in the next decade.

It's not just catalogs, though, that retailers will turn to to stimulate sales (and to make up for that lack of qualified sales personnel). Electronic retailing, including cable advertising channels, home computer shopping services, and other forms now being experimented with, will be a major factor in stimulating their companies' sales growth over the next five years, according to 61% of the total respondents.

Despite efforts to the contrary, it appears that a large percentage of what will be sold through these new media, as well as within the stores themselves, will continue to be imported goods.

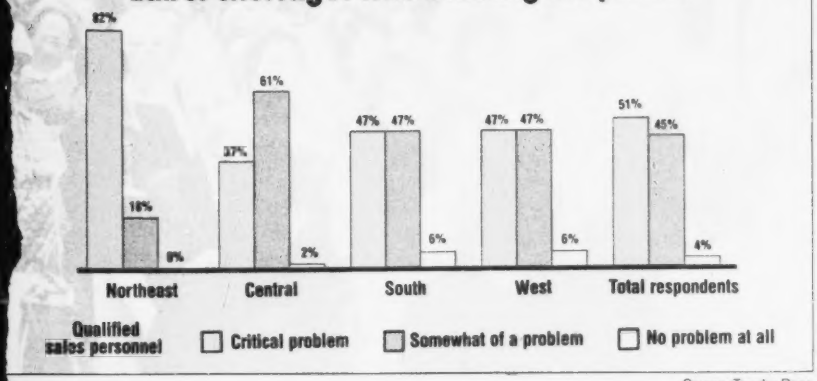
Nearly three-quarters of the respondents say they imported at least 10% of the goods sold in their stores during the past year. Five years ago, only two-thirds of the respondents say they were importing this large a percentage of their merchandise.

In addition, 30% of the retailers expect the percentage of imported merchandise sold in their stores to increase during the next 12 months.

In conducting its survey, Touche Ross was particularly concerned with trying to answer the question "Is the recent 'Buy American' campaign working within the types of retail operations surveyed?"

As part of this effort, respondents were asked to rank the five imported goods in their stores which account for the most sales. Following is a list of their responses: 1. women's apparel;

Labor shortage: Who's feeling the pinch?



Source: Touche Ross

2. men's apparel; 3. electronics; 4. children's apparel; 5. shoes/leather goods.

They were also asked to rank the five products which they think the U.S. produces better than any other country. Their responses: 1. food; 2. furniture; 3. men's apparel; 4. housewares/appliances; 5. women's apparel tied with cosmetics/perfumes.

Touche Ross executives admit that unfortunately the survey did not include questions concerning whether the items they consider produced best in America contribute significantly to their sales revenues.

Thus, the only conclusion it's possible to draw is that imports are still big obstacles to upping sales of women's and children's apparel, electronics, and shoes and leather goods produced by American manufacturers.

Foreign nations aren't making an impact only in terms of merchandise, though. According to 77% of the respondents, a significant number of future retail acquisitions will be made by foreign companies.

"Retail stores are the last bastion of foreign investors," Cynthia Cohen observes. "Once they were considered a risky investment. Now, with foreign currency stronger against the dollar, the foreigners are more confident."

At least for the retailers participating in this survey, this doesn't appear to be a particularly ominous threat. The majority, 56%, are *not* in favor of legislation to limit the acquisition of U.S. retail operations by foreign concerns.

In general, too, 53% of the retailers expect merger and acquisition activity to increase over its present rate.

When asked specifically, "Do you expect your company to be involved in merger/acquisition activity in the next 12 to 18 months," the breakdown of retailers answering "yes" can be looked at as follows: affirmatives expressed by 28% of the department store group; 21% of specialty soft goods respondents; 36% of the specialty hard goods retailers; 40% of the off-pricers, and 44% of the mail order company executives. For total respondents, the percentage was 31%.

What none of these retailers say, though, is whether they expect to be bought, merged, or have their own companies do the buying.

Retailers also aren't too sanguine about their ability to accurately predict their own financial futures. That's because, in looking back at 1987, 49% of the total survey respon-

Retail employees: Where will they come from?

Region	State	Projected retail employment (000)[1] 1988	1995	Growth[1] 000	%	Unemployment rate %[2]	Labor quality rank (out of 48 states)[3]	% of respondents 'Sales Personnel Problems' 'Critical problem today'	'Will affect customer service over next five years'
Northeast	Massachusetts	562	558	– 4	– 0.7	3.2	23rd	93	100
	New York	1320	1389	69	5.2	4.9	28th	56	92
	New Jersey	656	743	87	13.3	4.0	27th	67	100
	Connecticut	304	328	24	7.9	3.3	1st	80	100
Subtotal NE Tri-State		2280	2460	180	7.9			61*	95*
Central	Illinois	925	914	– 11	– 1.2	7.4	35th	47	80
South	Georgia	506	560	54	10.7	5.5	48th	69	94
	Florida	1122	1278	156	13.9	6.3	46th	47	88
West	Texas	1464	1606	142	9.7	8.4	42nd	39	87
	California	2397	2744	347	14.5	5.8	44th	51	79
TOTAL		9256	10120	864	9.1				

1 Woods & Poole Economics, *CEDDS*, May 1987
2 U.S. Bureau of Labor Statistics, year end 1987
3 "Education Index by State," *Grant Thornton Manufacturing Climates Study*, July 1988
* Average weighted by number of respondents per state.

Source: Touche Ross

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dents report that their yearly sales fell either somewhat or far below expectations.

By type, the retailers who appear to have been particularly hard hit are department store operators. Sixty-one percent of these respondents say their sales didn't reach expected levels, with 17% reporting they fell "far" below expectations.

Specialty hard goods businesses did best, with 60% saying sales either met or exceeded expectations.

"The retail industry is aware of the need for better forecasting and planning techniques," says Irwin Cohen.

"While one test will be to see how well the retailers have forecast for 1988, a retail climate of such constant upheaval and change—out-of-store retailing, the rising price of imports because of the weakened dollar, climbing inflation, higher interest rates, an election year, changes in competition caused by mergers and acquisitions—requires extremely sophisticated economic forecasting techniques, combined with numerous industry variables, to create solid financial and sales planning models," he says.

The authors of the Touche Ross study are still optimistic overall about the future of the retail industry. They are gratified to see that retailers recognize many of the major problems facing them and are ready to do something to combat them.

For example, when it comes to participating in the growth of non-store retailing, retailers can fight back by sending out more catalogs, increasing other direct mail activities, creating mail-order departments or subsidiaries, and experimenting with electronic retailing as a major way to stimulate sales growth.

To better forecast their more immediate business fortunes, they can strive to pay greater attention to exterior factors and can use economic forecasts, as well as industry variables, to create more sophisticated planning models.

Last, when it comes to the all-important challenge of obtaining qualified sales personnel, there appears no doubt that retailers have to look at new sources of part-time labor such as retirees.

It is also imperative that they implement more comprehensive training programs for both new full-time and part-time employees so that an acceptable level of customer service can be maintained. ■

APPAREL SALES SET FOR A REBOUND

NEW MERCHANDISE, BETTER FOCUS COULD END INDUSTRY'S YEAR-LONG SLUMP

What caused the year-long slump in women's apparel sales? While pundits argue the question, many women already know the answer: Nothing fit.

"What really did it was that prices were very high, and quality was terrible," explains Carol Farmer, a New York-based consultant.

"Then women were saying, 'I don't like the way I look in these clothes. I have things in my closet that will work and that look better.' They rediscovered the contents of their own wardrobes," Farmer explains.

"The most common complaint," agrees Goldman Sachs analyst Joseph Ellis, "is that the majority of styles and 'fits' are simply not made for more mature tastes and figures."

Demographic statistics for years had warned of a shift to older age categories, but designers, manufacturers and retailers all have ignored the trend.

Baby-Boomer women, now fully into middle age, have been particularly ignored (*see related story, this issue*).

Why has the industry not read the trend correctly?

Farmer blames the apparel buyer's isolation from the customer. "The buyer, without being on the selling floor anymore, is a long way from customers," she explains.

"She is receiving only information on what is being sold," Farmer says, "and it doesn't tell you what could sell if it were being offered."

"The computer printouts don't tell you anything about what is really happening out in the world," she says.

"Most key players in the women's apparel industry—designers, manufacturers and retailers alike—operate intuitively, attempting to 'spot the new trend' and 'psych out' the customer's interests," explains Goldman Sachs analyst Ellis.

"Unlike marketers in industries such as household products and fashion goods, which, we suspect, most

BANANA REPUBLIC: CHRISTMAS SEASON COULD TURN CHAIN AROUND

Men's wear sales—1988

Percent increase/decrease compared to same months in 1987

	April					May					June				
Classification	West	Central	South	North-east	National	West	Central	South	North-east	National	West	Central	South	North-east	National
All suits	2.6%	– 3.9%	– 7.5%	– 2.6%	– 2.4%	4.3%	11.6%	5.8%	3.9%	5.9%	15.6%	– 5.9%	15.1%	5.5%	7.3%
Sport coats	– 1.5	– 5.9	– 11.6	– 6.5	– 5.0	– 14.2	9.8	– 0.2	– 12.6	– 8.1	0.7	– 11.3	– 1.4	– 9.8	– 5.1
Dress slacks	– 2.6	– 7.5	– 3.4	2.1	– 1.9	– 8.5	– 7.6	– 7.3	– 5.8	– 5.8	– 4.9	– 7.9	– 0.2	– 0.2	– 3.4
Outerwear	9.5	9.9	26.3	– 4.9	7.8	0.7	20.8	27.3	– 11.1	1.5	5.9	6.7	28.1	3.3	8.1
Leather jkts	– 8.5	27.8	– 17.9	– 20.5	– 16.8	14.0	– 14.7	– 28.3	– 39.6	7.8	– 16.3	29.0	– 22.2	– 19.9	– 10.6
Jackets	4.3	25.2	22.9	– 22.2	16.4	16.6	– 15.1	31.4	– 42.9	– 3.5	19.3	– 17.3	32.0	– 15.6	0.2
Sweaters	6.5	– 5.7	27.2	– 8.0	1.3	12.4	– 1.1	– 6.6	13.0	9.5	11.2	2.5	1.0	– 0.3	6.6
Casual pants	– 5.9	20.3	10.4	– 15.5	– 3.1	– 14.8	– 5.6	– 6.6	– 13.7	– 12.6	– 12.7	– 7.6	– 10.5	– 11.4	– 9.5
Jeans	15.4	15.9	– 2.3	4.1	8.9	– 4.6	6.7	1.1	– 7.1	– 2.4	– 8.9	7.2	– 7.4	– 1.7	2.4
Sport shirts	– 5.9	– 4.2	0.2	– 14.0	– 6.6	– 6.3	3.8	– 16.2	– 11.8	– 7.5	2.5	5.6	– 10.9	– 9.7	– 1.5
Dress shirts	7.6	– 4.6	– 11.6	– 5.5	– 1.4	– 8.8	5.1	– 2.2	– 3.7	– 4.5	– 1.2	– 6.3	12.5	– 9.8	– 2.7
Knit shirts	– 4.1	– 10.8	32.6	– 14.4	– 2.4	– 8.9	3.9	– 26.7	– 7.8	– 10.9	– 8.8	– 6.4	– 8.3	3.1	– 5.4
Active sptswr	– 10.8	14.4	5.3	– 4.9	– 6.3	0.3	5.2	– 9.6	– 17.4	– 3.1	– 7.3	12.9	– 2.6	– 4.2	– 3.6
Hosiery	14.7	25.1	– 2.2	1.3	14.6	9.6	34.1	– 10.2	14.0	8.8	4.8	16.6	– 8.3	– 7.7	2.6
Neckwear	18.6	11.4	– 2.9	11.9	11.5	8.4	8.8	6.4	– 2.7	5.4	9.9	7.5	7.5	7.9	8.7
Belts	20.8	28.5	12.4	11.1	20.7	6.4	29.1	– 33.9	20.4	6.1	7.7	16.3	0.9	13.0	9.6
Underwear	10.8	11.3	11.4	– 10.5	8.0	9.3	7.7	– 13.3	– 6.2	2.4	8.7	11.6	– 3.1	– 7.2	3.5
PJ's & robes	– 0.6	35.5	14.2	– 9.8	2.0	10.0	8.0	13.7	– 2.0	9.8	4.7	6.3	15.4	– 3.2	5.0
Accessories	6.0	15.7	1.1	– 3.3	3.3	9.8	21.5	1.2	– 5.1	5.2	18.1	7.7	12.4	– 1.9	7.5
Swimwear	– 12.7	– 8.9	0.5	– 21.9	– 3.3	8.0	10.7	– 18.7	36.2	– 5.0	– 4.4	19.4	– 10.1	– 11.7	– 2.3
Total	0.1	0.7	– 1.5	– 4.9	– 1.4	4.5	6.3	– 4.5	– 4.2	– 2.8	0.1	– 2.5	2.1	– 2.2	– 0.7

Source: RMSA Retail Store Database

retailers view as slow-moving and somewhat academic in nature, women's apparel manufacturing and retailing companies spend little time or money on an empirical tracking of customer demographics or to determine specific customer merchandise preferences through exit interviews," says Ellis.

The result, says the analyst, are racks filled with garments that neither fit most women nor are appropriate to their more mature outlook, not to mention their more mature figures.

"We do not believe that the absence of 'hot new items' has been the problem over the past year," he says. "Indeed, the very problem seems to have been that last year's items were too 'hot.'"

The Gap, the San Francisco specialty chain whose profits took a much celebrated trip south, has confronted the size problem head-on. In both women's and men's apparel, the retailer now has added a "fit" dimension to more traditional jeans size and color considerations.

In women's apparel, The Gap now merchandises Second Shift (a tight fit), Boss (slim), First Class (long waisted) and Relax (an easy fit).

For men's, The Gap uses Navigator (slim), Pilot (tapered leg) and Mechanic (an easy fit).

The chain's new focus must be working. Through the first half, comparable-store sales at The Gap were up an estimated 15%.

Its Banana Republic division, however, probably posted a 10% decline in same-store results, reflecting the concept's difficulty in finding a long-standing fashion position.

As one industry wag put it, "How many of your friends want to dress up in jungle clothes?"

Even Banana Republic could get some relief, however, as new product is now moving into stores for the Christmas selling season.

Other chains, meanwhile, are taking profitable notice of demographic changes. Santa Monica, Calif.-based Motherhood, for example, noticed an increase in the nation's birthrate along with an increase the number of working women and came up with career apparel maternity wear (*see story this issue*).

Kids Collection, based in Tarzana, Calif., is targeting something unheard of only a few years ago—the high fashion juvenile customer (*see story this issue*).

Richmond, Va.-based S&K Famous Brands is experimenting with store design and advertising that encourages women to buy men's apparel for their husbands. The off-price men's apparel chain began the program when it realized the number of women shopping its stores (*see story this issue*).

Generally, the slump in apparel sales is finally beginning to show signs of turning around.

According to Riverside, Calif.-based Retail Merchandising Service Automation (RMSA), women's apparel sales decreased 7.4% in June, compared to an 8.1% drop in May and a 9.0% dip in April (*see chart*).

The biggest laggards, says RMSA, continue to be junior dresses (down 20.2% in June 1988 compared to June 1987), skirts (down 19.0%) and sweaters (down 15.2%).

The only gainers were jackets (up 14.2%), robes (up 11.3%), suede and leather coats (up 9.8%), jeans (up 8.5%) and novelty tops (up 4.2%).

Men's apparel, says the retail merchandising and consulting firm, remained fairly flat from April through June (*see chart*).

In the latest month, the biggest gainers in men's were belts (up 9.6%), neckwear (up 8.7%) and accessories (up 7.5%).

The weakest performers, according to RMSA, were leather jackets (down 10.6%), casual pants (down 9.5%) and knit shirts (down 5.4%). ■

Women's wear sales—1988

Percent increase/decrease compared to same months in 1987

	April					May					June				
Classification	West	Central	South	North-east	National	West	Central	South	North-east	National	West	Central	South	North-east	National
Missy dress	– 7.9%	–12.5%	– 3.5%	8.8%	– 3.8%	–21.6%	0.9%	5.2%	– 5.2%	– 9.1%	–15.9%	–17.5%	0.2%	5.3%	– 8.5%
Cktail dress	–16.9	–15.9	8.8	15.1	0.1	– 7.4	–34.9	– 4.9	–19.5	–11.1	–10.9	–21.9	9.2	10.2	– 1.5
Jr. dresses	–15.4	15.0	–18.9	–24.5	–17.1	–31.8	–52.6	–10.2	–26.3	–29.4	–22.6	–31.1	–25.5	3.6	–29.2
Suits	–30.6	–32.8	–20.3	– 4.9	–22.3	–21.1	21.5	3.7	– 6.8	14.9	– 3.2	–21.4	17.2	– 8.1	– 1.4
Coats	16.5	0.8	10.0	1.6	9.2	19.0	–34.8	32.5	–10.4	8.4	– 2.7	–13.4	34.0	–17.3	– 4.4
—All purp.	–14.8	21.2	–34.8	–20.1	–17.9	–18.2	12.5	8.5	– 5.9	– 1.7	– 9.7	–23.2	–11.5	5.5	–12.5
—Suede, lthr	–28.2	19.5	–19.9	–23.6	–18.5	–17.4	–25.5	–18.9	–22.3	–17.4	–14.8	5.7	30.2	– 9.9	9.8
Jackets	4.2	–23.3	25.3	– 4.9	3.2	22.2	6.3	15.7	2.6	14.1	8.6	– 1.2	33.7	25.7	14.2
Sweaters	–20.8	–14.0	–27.4	–30.5	–24.2	–26.3	– 5.6	–20.4	–25.8	–21.3	– 9.2	–21.3	–23.7	– 7.4	–15.2
Novelty tops	– 3.4	– 8.7	11.7	– 4.4	– 0.8	– 9.8	6.5	– 8.5	– 5.7	– 6.7	– 3.2	1.6	3.7	5.4	4.2
Blouses	–19.3	–21.3	–18.7	– 9.1	–17.6	– 4.9	– 1.7	–12.9	– 1.8	– 6.5	– 5.3	–10.1	–20.3	– 3.7	–10.2
Skirts	–18.6	–31.6	–24.2	–27.3	–24.9	–14.9	1.2	–23.2	–22.3	–17.1	–15.6	–15.3	–27.0	–14.6	–19.0
Pants	– 6.3	–12.0	– 0.4	1.9	– 3.4	– 2.1	1.4	– 6.3	– 0.1	– 2.5	– 0.2	3.5	– 6.7	4.6	– 0.5
Pant/jumpsuit	–13.6	5.0	7.3	19.1	1.5	–21.5	29.2	–23.8	18.4	– 3.8	– 9.5	45.7	–12.5	14.1	– 2.7
Coor. groups	– 7.6	–19.1	– 4.3	21.3	8.8	–14.2	–11.6	– 4.0	– 5.8	– 8.7	– 7.2	– 7.7	– 8.6	1.1	– 7.3
Jeans	19.5	20.7	8.0	–18.7	8.5	15.6	–17.3	13.1	–20.3	– 7.7	25.7	1.2	1.1	– 3.4	8.5
Swimwear	–22.5	12.9	28.5	27.3	15.1	– 8.4	– 2.3	–11.6	–42.5	–18.8	–13.8	– 6.9	–10.8	3.5	–10.4
Int. apparel	–12.5	– 7.5	– 7.3	–13.2	–10.2	–17.2	–17.7	1.8	2.6	– 7.3	– 3.1	– 4.6	– 9.5	– 3.5	– 5.7
Sleepwear	12.8	22.6	4.7	11.6	9.6	– 5.8	– 7.8	–15.3	–11.5	–12.2	10.7	5.1	– 4.1	– 8.2	– 1.7
Robes	–15.2	8.5	1.2	– 1.3	– 9.7	– 9.3	3.7	20.4	10.7	3.4	16.5	9.4	– 8.2	15.0	11.3
Handbags	–10.4	– 1.4	–13.8	3.2	– 9.3	–11.7	–13.4	–21.7	6.0	–11.9	–17.1	21.7	13.9	15.9	–18.7
Active sptswr	– 8.2	9.0	20.4	–12.6	– 3.2	–14.5	9.4	32.3	–14.6	– 6.9	–17.5	– 5.5	8.1	–27.1	–13.3
Hosiery	– 8.4	1.3	– 2.8	10.5	– 1.3	–10.9	5.1	– 3.5	2.9	– 3.8	– 8.4	7.7	–11.2	9.8	– 4.8
Jewelry	–18.0	8.3	–13.7	– 9.4	–10.8	– 8.5	– 4.6	2.6	3.8	– 2.9	– 6.2	– 9.5	3.8	– 7.2	–11.3
Totals	–12.9	–13.5	– 6.1	– 3.9	– 9.0	–12.2	– 3.7	– 4.2	– 8.3	– 8.1	– 9.4	– 8.8	– 7.8	3.2	– 7.4

Source: RMSA Retail Store Database